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NATIONAL INTELLIGENCE DAILY CABLE

Friday August 26, 1977

CG NIDC 77-199C



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NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

State Dept. review completed

Top Secret

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National Intelligence Daily Cable for Friday, August 26, 1977

The NID Cable is for the purpose of informing senior US officials.

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Netherlands
Portugal

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SOUTH AFRICA: Nuclear Policy

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[] South African Prime Minister Vorster's statement on Wednesday of his government's position on nuclear proliferation gives only a limited indication of the diplomatic strategy the South Africans will follow in responding to international pressures on the question of South African nuclear testing.

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[] Vorster repeated an earlier South African offer to put its projected uranium-enrichment plant under International Atomic Energy Agency safeguards, but with respect to signing the Non-Proliferation Treaty he said only that South Africa was willing to "discuss" it with the US.

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[] His stress on what he called unwarranted discrimination against South Africa in nuclear matters suggests that Pretoria will try to make adherence to the treaty contingent on international acceptance of South Africa as a full member of the nuclear community. Specifically, this would be in effect a guarantee of foreign input for projected nuclear power plants.

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[] The setting of the Vorster address--a provincial congress of the ruling party, which also dealt with plans for coping with racial tension--suggests that Vorster was playing up adverse international pressures partly to rally grassroots support for controversial domestic policies. By the same token, Vorster may hope to convince Western leaders he cannot accept tightened monitoring of South Africa's nuclear program without some accommodations to assuage domestic resentment of foreign pressures.

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[] Vorster said an unacceptable "double standard" prevailing in the IAEA militates against Pretoria's signing the Non-Proliferation Treaty. He cited:

--South Africa's expulsion from the IAEA board of governors in June.

--The "tremendous pressure" on South Africa to sign the treaty, even though 13 of the 35 states represented on the board had not signed it.

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--The fact that even though France is among these 13 non-signers it publicized a particularly harsh warning this week that seemed to support the Soviet allegation that South Africa was preparing to explode a nuclear device.

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[] Vorster said the record of other countries in honoring bilateral nuclear agreements with South Africa is also pertinent. He said the US promised in a 1957 agreement to provide fuel for the South African research reactor at Pelindaba but new fuel elements ordered two years ago have not yet been delivered. He added that the US has also contracted to provide fuel for two nuclear power plants that are to be built by a French consortium and that under present circumstances South Africa needs a guarantee that the contract will be fulfilled.

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[] Vorster did not refer to a facility in the Kalahari Desert, nor did he offer his own version of the assurances President Carter had announced he received from South Africa regarding the possibility of a nuclear test there.

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[] The government-controlled South African Broadcasting Corporation's international service on Wednesday introduced a portion of Vorster's speech by noting that the Prime Minister also said that South Africa was tired of being called on repeatedly to give assurances, as had been the case recently, and that he hoped speculation about South Africa's alleged plans to conduct a nuclear test had now come to an end. This passage does not appear in the text of the speech as provided by the US embassy. []

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EGYPT: Consumer Subsidies

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[] Egyptian press reports last week about plans to reduce consumer goods subsidies were the beginning of an intensive government campaign to prepare Egyptians for price increases as part of an austerity program sponsored by the International Monetary Fund. Egyptian authorities learned a bitter lesson last January when their badly bungled attempt to introduce subsidy cuts triggered the worst urban riots in two decades. This time, an elaborate explanation of the government's fiscal program, keyed to a fight on inflation, has been coupled with an announcement of wage increases and a "war" on price profiteers.

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[] The IMF has insisted on subsidy cuts as a condition for its standby loan arrangement. Such cuts would help realign unrealistic domestic prices and help control Egypt's enormous state deficit. Other ways of reducing state expenditures--cutting civilian or military wages, reducing the public sector labor force, or curtailing investment--would be politically and economically disruptive.

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[] Egyptian authorities have undoubtedly been hoping that the subsidy issue would simply go away. They had been counting on increased revenue collection, a campaign by the treasury to collect overdue debts from public-sector firms, and falling prices of imported wheat to reduce the size of subsidy cuts needed to comply with IMF expenditure guidelines.

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[] So far, however, these improvements have not been sufficient to offset over-expenditure by some government departments during the first half of the year, and time is running out. In order to qualify for another IMF loan at the end of 1978 when the current standby loan expires, Egypt must demonstrate that the agreed fiscal programs for 1977 and 1978 have been followed. Failure to measure up to IMF standards would also alienate wealthy Arab states that have insisted on Egyptian agreement with the IMF as a prerequisite for further aid.

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[] Egyptian officials, although aware of the economic need to comply with the IMF and to please their Arab patrons, will nevertheless closely monitor public reaction to the current campaign to explain the economic reforms. Grumbling over the economy--as well as over a variety of other grievances--has been increasing during the past several months and has become one of President Sadat's major concerns. []

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USSR-CHINA: Relations

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[] *The most forceful Soviet attack on the new Chinese leadership since last May was carried by Tass on Wednesday. This was clearly in response to Secretary Vance's visit to Peking and recent high-level Chinese propaganda attacks on*

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the USSR. The press attack further revealed Moscow's growing frustration with Mao's successors and its increasing anxiety over the possibility of US arms aid to China.

25X1 [redacted] Wednesday's Tass coverage was based on an article appearing in the August 12 edition of *Kommunist*, the official Soviet party monthly. The *Kommunist* article was in part a reply to anti-Soviet speeches made by Chinese leaders at the Chinese Party Plenum in July.

25X1 [redacted] *Kommunist* has carried an assessment of Chinese policy in its August issue four out of the last five years, and it usually signals the beginning of stepped-up propaganda campaigns by both the Soviets and the East Europeans. Since the latest issue appeared, Chairman Hua has personally gone a step further with condemnation of the "fascism" of the Soviet "leading clique" in his report to the 11th Chinese Party Congress last week. The Soviets are likely also to respond to this statement.

25X1 [redacted] Tass excerpts from the *Kommunist* article once again accused the new Chinese leaders of attempting to subvert the "international communist movement" and push the world into a new war by pursuing a distinctly Maoist and thus anti-Soviet course at home and abroad. In their efforts to implement "Maoism without Mao," the new Chinese leaders were said to be allying themselves with "imperialist and reactionary" circles in Japan, the US, the UK, and West Germany.

25X1 [redacted] In an obvious reference to Secretary Vance's visit, the Soviets accused the Chinese of trying to "provoke in every way possible a deterioration of relations between the USA and the USSR" and to derail detente by playing on recent tensions in relations between Washington and Moscow.

25X1 [redacted] Underlying the Soviet attack is a sense of frustration over the failure of Moscow's efforts to establish better relations with the new Chinese leadership. At the same time, the *Kommunist* article reveals heightened Soviet fear that an improvement in Peking's relations with the West in general and the US in particular could lead to China's acquisition of Western military hardware and technology.

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[] This theme was raised in a commentary that appeared in *Izvestiya* in May under the authoritative byline of I. Aleksandrov, which marked the first major Soviet attack on Mao's successors. Last week, Radio Moscow commentaries speculated that Secretary Vance's visit could result in some sort of compromise between Peking and Washington involving a Chinese acceptance of a US two-Chinas position in return for US arms.

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[] Similar fears have recently been voiced by a number of Soviet officials in private. In a conversation with a US embassy official in Moscow on August 12, G. F. Kim, Chief of the Korea, Mongolia, and Vietnam section of the Soviet Institute of Oriental Studies, expressed concern over recent US academic writing on the possibility of the US arming China. Earlier this month, several high-ranking Soviet academicians separately expressed similar concerns to a visiting US scholar. []

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AUSTRALIA: Uranium Development

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[] //Australian Prime Minister Fraser announced a decision yesterday to allow large-scale mining and export of Australia's vast uranium resources. This follows several years of public debate and a special environmental inquiry; the former Labor government had banned uranium exports in 1972. The decision will enable Australia to become a major international supplier of uranium within the next decade and offers greater assurance to potential customers that adequate supplies will be available in the medium term.//

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[] //In a detailed presentation, Fraser and five cabinet ministers stressed Australia's obligation to assume a major role in the international effort to develop satisfactory nuclear safeguards while helping to meet the energy requirements of other countries.//

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[] //Fraser emphasized that the government accepted nearly all of the measures for controlling uranium development recommended by an Australian environmental inquiry commission, including establishment of a uranium advisory council to monitor the industry. The government also will require completion

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of an environmental impact study for each uranium mining project before it can begin. The Liberal-Country government hopes these measures will lessen criticism from environmentalists and the Labor Party.//

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[] //To help pave the way for yesterday's announcement, last May the Fraser government set out a stringent 10-point policy for nuclear safeguards similar to those of the US and Canada. Australia reserves the right to be selective in accepting foreign customers and wishes to maintain some form of control over the disposition of its nuclear material.//

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[] //The most contentious point is likely to be the requirement that a customer obtain Australia's approval before it can reprocess spent fuel made from Australian uranium. This would enable Australia to complicate a country's plans to develop a plutonium-based nuclear power program. Other sensitive points requiring Australia's permission are the re-export of Australian uranium to third parties and the enrichment of the uranium beyond 20-percent U-235, which would make it weapons-grade material.//

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[] //Australia, with 330,000 tons of known uranium reserves, ranks behind the US, Canada, and South Africa as a potential producer. Even if it decides to go slowly with development, it could produce more than 15,000 tons annually by the mid-1980s and 27,000 tons annually by the mid-1990s.//

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[] //Australia has no immediate plans for a nuclear power industry of its own, so nearly all the uranium produced would be exported. If it allows producers to carry out their present plans, uranium could become Australia's leading export within a decade, bringing in as much as \$1 billion annually by the mid-to-late 1980s.//

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[] //In recent months, Australian officials have traveled abroad to obtain an up-to-date estimate of potential demand for their uranium after 1980. The results of this survey will determine in part the rate at which uranium projects are allowed to begin.//

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[] //Three Australian mining companies are already committed to supplying nearly 11,000 tons of uranium oxide by 1986, mainly to Japanese power companies. The contracts will take up much of the production potential for the next few years.//

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[REDACTED] //Now that large-scale uranium mining has been approved, interest in establishing a domestic uranium-enrichment plant is again on the rise. Such a plant would significantly increase the value of Australia's uranium exports. Providing enrichment services for the Pacific region also would give Australia an additional edge in controlling the disposition of its uranium.//

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[REDACTED] //Several Australian companies have expressed an interest in forming a consortium to build a plant costing several hundred million dollars. In yesterday's announcement, the government indicated it would keep open its option to construct enrichment facilities while continuing feasibility studies. Construction of an enrichment plant is probably a long way off, but the possibility of a future international shortage of enrichment capacity offers Australia an incentive to pursue the matter. [REDACTED]

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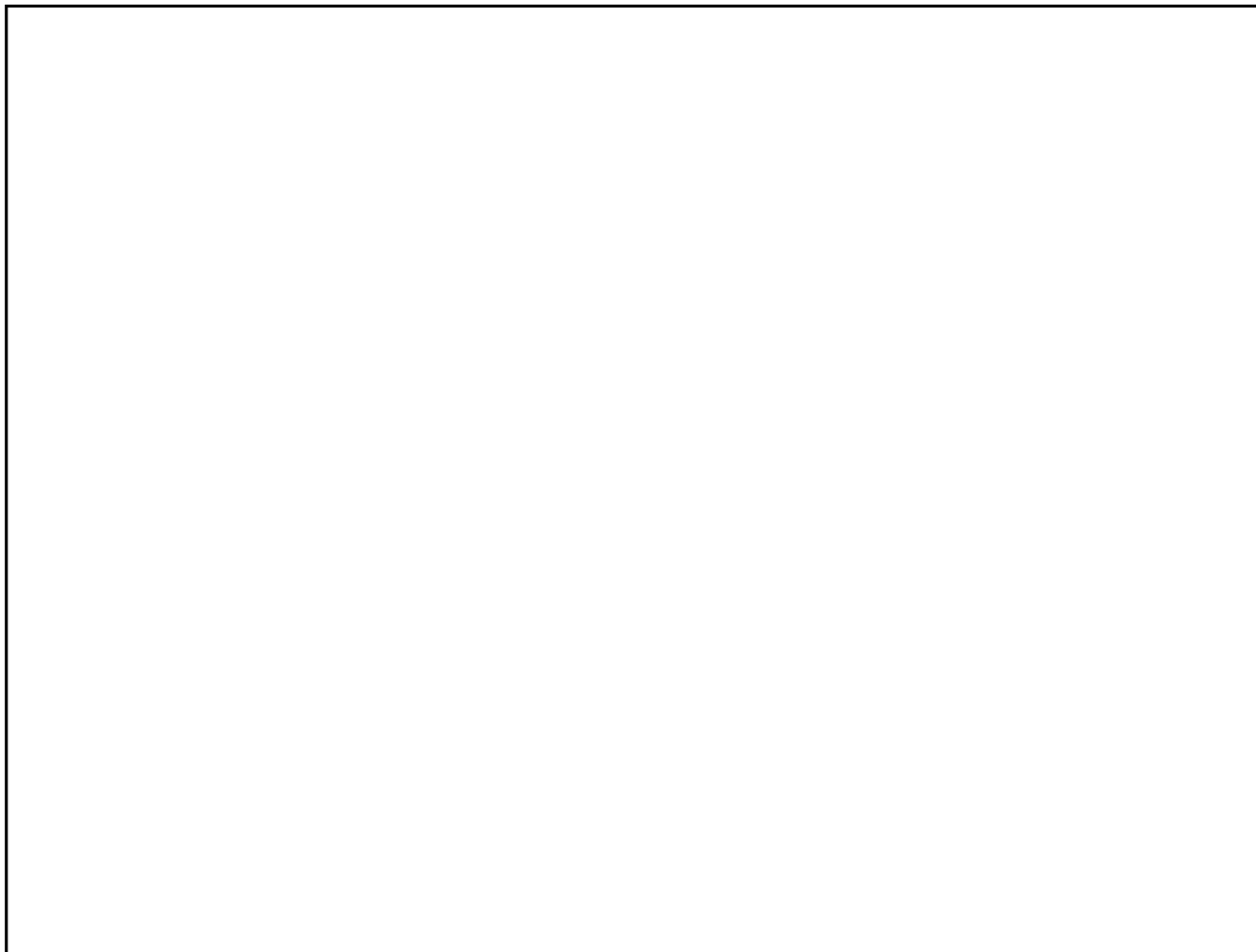
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NIGERIA: Elections

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 *The Nigerian military regime's progress toward re-turning the country to civilian rule continues on schedule. The next step--nationwide, indirect, nonpartisan elections to select the majority of the delegates in a 230-member constituent assembly--will take place on August 31. The assembly, to be convened in October, will be given six months to review the draft constitution written last year.*

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25X1 [] Debating the constitution could prove a stormy exercise; Nigeria's competing interests historically have found it difficult to agree on constitutional arrangements. Present criticism of the draft constitution focuses on its provision for an executive presidential system, its allegedly weak guarantees of press freedom, and the fact that it does not prescribe any ideological guidelines.

25X1 [] Candidates for the constituent assembly include several well-known old guard politicians and some aspiring newcomers. According to one contender, participation in the constituent assembly will be essential to any politician seeking a role in future Nigerian politics. It is there, he says, that personalities will make themselves publicly known and that future parties and alliances will be formed.

25X1 [] The constitutional review will complete the second stage of an announced five-part program for handing over power to civilians in 1979. The final three stages of the program are to include the formation of national political parties, the formal resumption of political activity, and the holding of state and national elections. []

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WEST GERMANY: Economic Measures

25X1 [] *The West German government may not decide on its new economic stimulation program before September 14, according to an authoritative government spokesman. Earlier reports had suggested the program would be announced after the cabinet meeting on August 31. The delay may well reflect difficulty in putting a program together.*

25X1 [] Temporary reductions in personal and corporate income taxes under the Stability and Growth Law, likely to be the heart of the stimulation program, are running into heavy opposition in both coalition parties. Tax experts in both the Social Democratic and Free Democratic parties that support the argument of the leftwingers fixed-percentage tax reductions would primarily benefit the rich who are least likely to spend the additional money. In their view, the 7-percent tax cut now being mentioned would result in a revenue loss of about \$4 billion without generating anything approaching that amount in additional private sector spending.

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[REDACTED] A 7.5-percent investment tax rebate, another possible stimulation measure, is also meeting sharp opposition. Social Democratic hardliners and trade union leaders argue that business already has benefited from a cut in selected business taxes and a scheduled increase in the value-added tax, which shifts more of the tax burden to consumers. The value-added tax increase pushed through by the government brought into full view the deep disagreements within the Social Democratic Party over economic and social policies.

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[REDACTED] Chancellor Schmidt is certainly reluctant to risk early renewal of the struggle that threatened large-scale defections from his party and the defeat of his previous tax program. He probably is not persuaded that the proposed tax cuts will have much more than a cosmetic effect, but feels forced to take some stimulative action for broader political reasons. He may thus need more time to build coalition support for whatever measures he ultimately proposes. [REDACTED]

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PANAMA: Toward Ratification

25X1 [] *The treaty ratification debate in Panama began officially last Friday when Chief of Government Torrijos and other top leaders explained and defended the accords to a receptive legislative assembly. Chief negotiator Escobar's public threats against the US, given extensive media coverage, were taken out of context by the press outside Panama. Although allowing opposition to be heard, the government is stepping up its backstage maneuvering to line up support for the treaty.*

25X1 [] The thrust of the government's emerging public strategy is to picture the accords as a major triumph that gives Panama as much as it could realistically hope to achieve. Panamanian officials are highlighting such benefits as the \$345-million economic and military package and the annuity of \$50 million to \$60 million. They are also exaggerating the favorable aspects of various provisions.

25X1 [] Escobar has been the primary public defender of the treaty and has drawn the toughest tasks--talking to student groups and defending the neutrality provisions. Although he did warn in his speech last Friday that Panama would take the path of violence if the US Congress did not approve the accords, this was a minor element in his speech, and not--as international press accounts suggested--its major thrust. His "threat," moreover, was designed as a domestic effort to outflank at least some of the recent leftist criticism directed at the government for its concessions rather than a warning to the US.

25X1 [] The expected domestic opposition to the accords has been quick to surface, although insufficient to cast doubt on Torrijos' ability to produce a plebiscite victory. Last week, a pro-government daily front-paged critical statements from five different sources. //The publicity given to their statements was evidence of Torrijos' public commitment to permit debate.//

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[REDACTED] //Panama's major student group, which is often subject to government manipulation, is edging toward backing the accords. Torrijos has told officials [REDACTED] that he is willing to permit student protests, but only within limits.//

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[REDACTED] //Other aspects of recent government policy continue to point toward considerable sensitivity to conservative sentiment in both Panama and the US. Torrijos has delayed naming a new ambassador to Cuba, for example, because he wants to give the impression that Panamanian-Cuban relations are not that close. Panama even postponed the visit of a Soviet dance troupe until after the treaty is signed.

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[REDACTED] //Public enthusiasm has yet to reach significant levels, but overall the government has begun to stake out an effective argument and appears willing to accept at least some public criticism in the process of securing a majority plebiscite vote.//

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BRIEFS

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Netherlands

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[REDACTED] Socialist Premier-Designate Den Uyl announced yesterday that his second attempt in less than two months to form

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a government has failed. Den Uyl was stymied by the continuing opposition of the Christian Democrats, the second largest Dutch party, to his proposals for abortion reform.

25X1 [] Queen Julian will now undertake another round of consultation with major Dutch leaders in an effort to find another formateur. The process is almost certain to be a protracted one. []

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Portugal

25X1 [] Portugese Prime Minister Mario Soares yesterday announced a set of austerity measures aimed at cutting Portugal's huge balance-of-payments deficit. Soares announced a 25-percent increase in the price of premium gasoline and warned that there would be gasoline rationing by the end of the year unless there was a drastic reduction in consumption.

25X1 [] Soares also announced an across-the-board increase in interest rates and promised to cut government spending by 10 to 20 percent. He said that there would be periodic adjustments in the escudo's exchange rate but that there would be no sharp devaluation. He promised more incentives for industrial and export expansion and detailed other measures that would allow state-aided industries in financial trouble to cut wages.

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